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TO RUEHC/SECSTATE WASHDC 6414
RUEATRS/DEPT OF TREASURY WASHDC
INFO RUEHXS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS
RUCPDO/DEPT OF COMMERCE WASHDC
RUEHKO/AMEMBASSY TOKYO 0848
RUEHBJ/AMEMBASSY BEIJING 4335
RUEHBY/AMEMBASSY CANBERRA 1240
RUEHUL/AMEMBASSY SEOUL 4212
RUEAIIA/CIA WASHDC

UNCLAS SECTION 01 OF 02 JAKARTA 002694

SIPDIS

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DEPT FOR EAP/MTS, EB/IFD/OMA
TREASURY FOR IA-BAUKOL
SINGAPORE FOR TREASURY-BAKER
COMMERCE FOR 4430-BERLINGUETTE
DEPARTMENT PASS FEDERAL RESERVE SAN FRANCISCO FOR TCURRAN
DEPARTMENT PASS EXIM BANK

E.O. 12598: N/A
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SUBJECT: FINANCE MINISTER MEETING WITH AMBASSADOR

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¶1. (SBU) Summary: Minister of Finance (MOF) Sri Mulyani Indrawati told the Ambassador on September 24 that Indonesia's growth is strong but more infrastructure development is needed. Indonesia needs to do more to get its good news story out, as the media paints a very negative picture. The country's budget formulation process is in transition, creating an interesting dynamic as the Parliament takes on a greater role. The non-commercial aspects of the Embassy land issue are approved: the land valuation issue will be handled by the Ministry of Finance's Secretary General Mulia Nasution and the Director General for Assets Mr. Hadiyanto. End Summary.

Strong Growth But Infrastructure Boost Needed

¶2. (SBU) Finance Minister Mulyani welcomed the Ambassador in a meeting on September 24, noting that the Indonesian economy is moving along well and it is a good time to be here. The U.S. subprime problems impact on the global economy are still unclear. Indonesia has been slow to recover from the financial crisis of 1997-98 and poverty and unemployment are still high, but exports and capital flows and reserves are now strong. The role of foreign buyers of Indonesia's bonds and stocks has increased to 20% in the last two years. It is not yet clear investors will re-profile their portfolios and risk assessments of emerging markets. Mulyani expects continued strong growth in the second half of 2007 above 6% (Q2 GDP growth was 6.3%). Infrastructure development will be needed to give growth a boost. Slow infrastructure development is also hindering the growth of regions under decentralization. Both the Members of Parliament (DPR) and the Cabinet are concerned with strong growth. The elections of 2009 are still far away, but still close for many politicians. The Ambassador responded that Indonesia had been more successful in attracting portfolio investment than long-term foreign direct investment (FDI).

Praise for U.S. Technical Assistance

¶3. (SBU) Mulyani reiterated her appreciation of U.S. technical assistance to her Ministry, including in the Directorate General of Tax (DG Tax). She has also consulted with the Internal Revenue Service and Treasury on ways to improve tax administration. "The

Ministry of Finance is very important and powerful," she noted, "but needs deep reform." Many of these reforms were placed on hold after the financial crisis, but now is the time to clean up our own house internally. Tax and customs reform are her highest priority.

Budget Process in Transition

14. (SBU) Mulyani noted that Indonesia's budget formulation process is in an interesting state of transition. Under Soeharto, Indonesia had a rubber stamp Parliament, now it is exercising real power. A new draft law will define more formally the DPR's role. Many in the executive branch are not used to this new dynamic, which is creating some interesting debate. "We are still searching for the right equilibrium," she noted. She also said that under the executive branch, the budget process was still rather fragmented between the National Planning Ministry (BAPPENAS), the other line ministries and the Ministry of Finance.

Getting Out the Good News Stories

15. (SBU) The Ambassador noted that he would be traveling to the U.S. to discuss with Microsoft the possibility of holding its Global Leadership Forum in Indonesia. "Indonesia needs to help tell its story, otherwise there is gradual improvement but the world does not notice." Mulyani concurred that at a recent Asia Pacific bankers' dinner, many of the participants had never been to Indonesia before and were pleasantly surprised at the positive developments, unlike what the media has frequently portrayed. Indonesia needs to build up its own confidence and put the blame game behind it, she said. The Ambassador said that turning the page on some of the old cases and disputes still unsettled from the financial crisis could improve the perception of those outside the country and thus the overall the investment climate.

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Embassy Land

16. (SBU) On the issue of Embassy land, the Minister noted that from the non-commercial aspects, all is clear. The political agencies and City Planning Agency (DKI) have no problems. Under Indonesian law, every transaction above Rp 100 billion (\$11 million) requires DPR approval. "I will have to defend the valuation in front of Parliament," she noted. "The concern for my treasury is that my balance sheet shows we were paid the same price or higher." She said in her Ministry, Secretary General Mulia Nasution would be coordinating the process with the Director General for Assets Mr. Hadiyanto.

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